



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

MAINTAINING PRODUCTIVE OUTPUT—A PROBLEM IN RECONSTRUCTION

The problem of industrial reconstruction is primarily the problem of turning our resources from the channels of war-time production into those of peace-time production. Secondly it is the problem of utilizing this period of change to bring industrial process into closer conformity with our ideal industrial program by conserving what we have learned through our war experience.

The most important and difficult task of reconstruction is to make this readjustment and still maintain the productive level of which we have found ourselves capable during the war. There is evidence that we have increased our output of products from 25 to 30 per cent over the pre-war period through the complete utilization of our natural resources, our plant and machinery, and our labor. If production is allowed to return to the pre-war level output will slump off by 20 per cent. This would mean a corresponding waste of productive resources and a decrease of \$14,000,000,000 per annum in our national income as measured by the present price level; even if prices should fall 30 per cent the decrease would still be approximately \$10,000,000,000. In view of the magnitude of this waste the government can well afford to spend several billion dollars per annum if necessary to maintain the level of productive output. The essence of the process would be that we would waste two billion dollars of our productive capacity in order to keep ten to fourteen billion dollars' worth of resources from running to waste because of unemployment. The result is a net addition of twelve billion dollars to our national income. The alternatives presented by this situation are not government expenditure of this amount as against private expenditure; they are government expenditure of several billions as against a waste of productive resources many times as large.

A decline of the high level that we have reached during the last two years will bring about a lowering of the standard of living which

our laboring classes have attained during the war. Further, it will prevent the possibility of that improvement in the standard which we should realize now that we have ceased wasting a large part of our output on war. One-half of the amount annually spent on the war by the United States would add two hundred dollars on the average to each of the twenty-five million laboring families of the United States.

Such a fall of output will mean a decline by half in the volume of annual savings which we have made during 1916, 1917, and 1918. Savings, as the term is here used, consist of the excess of the nation's production over its consumption and determine the annual net addition to our national wealth. During the war this excess has grown from six and a half billions in 1913 to over twenty billions in 1918; it has made possible the furnishing of thirteen billion dollars of capital to foreign nations, the addition of over one billion dollars to our stock of gold, an enormous extension of our plant equipment, and the prosecution of eighteen months of war without any appreciable diminution of the standard of living of our people. These additional savings have come, practically in their entirety, from the added production of the nation. If the additional product disappears, savings will decrease by almost a corresponding amount. The result will be a decline in the rate of growth of our national wealth and in the volume of funds for loans abroad, and a rise in the rate of interest.

Such a decline in production will further have as its concomitant a period of widespread unemployment. This is especially true because of our returning soldiers, whose numbers are more than adequate to replace those who would naturally leave the ranks of labor now that the war is over. A period of widespread unemployment can hardly fail to bring about political agitation for a radical change of the present industrial order. Even to the thoughtful laborer, to say nothing of the demagogue who attains to leadership, it will seem that those socialists are right who insist that the capitalists, meaning thereby the entrepreneurs, are interested, not in the utilization of our resources to satisfy the wants of our people, but only in profit; that in order to make profits it is necessary, in normal times, to restrain the supply of products and thus decrease

the demand for labor to the point where the price of the former shall rise high enough above the price of the latter to leave the capitalist class a handsome margin of profit. It really does appeal to one's common sense as being preposterous that the laborer should be thoroughly employed at good wages and should therefore enjoy a high standard of living when the nation is wasting billions upon war, and should find it impossible to secure employment and maintain that standard when the waste of products has ceased. The present industrial order depends for the direction of productive activity upon individual initiative motivated by profit. If it is to endure, it must demonstrate its ability to prevent the consequences now threatening American industry. If it fails in this, then it seems reasonable that the great mass of laborers will demand a trial for a régime in which government shall again control and direct production as it did during the war to bring to its fullest realization our capacity for productive output. If our production does fall off by fourteen billion dollars and the laborer does make this demand, who shall say him nay?

It behooves those of us who believe that an order of private property and individual initiative in industry is desirable to ask ourselves what can be done to conserve the lesson which the war has taught us concerning our productive ability.

The point of view most relevant and valuable in attacking this phase of industrial reconstruction is that which recognizes the dependence of employment and productive output upon the state of business enterprise which exists among the entrepreneurs of the nation. It has become trite to say that many things will be different after the war, but it is certain that the industrial situation will still remain such that men who have jobs will have them because they are employed on the initiative of some entrepreneur, and plant and machinery that is kept running will be running because some entrepreneur so decides.

Considered as a problem in business psychology the task is that of maintaining the exuberant spirit of business enterprise which has characterized the American entrepreneurs during the last three years, for while this spirit can be maintained it is safe to presume that our labor, our natural resources, and our plant and machinery

will be fully employed; that our productive output will be large; and that the fund available for taxation will be ample to meet the needs of the federal government as easily as they have been met during the past fiscal year. There will be abundant credit, both for industry at home and for loans to the war-impooverished nations abroad. In fact, the problems of unemployment, of the maintenance of productive output, and of fostering business enterprise are at bottom one and the same problem.

The first thing needful is to ascertain the fundamental factors which determine the volume of demand. This must be supplemented by a statistical examination of the demand for goods as to both direction and quantity, that may be expected now that the war is over. The business men of this country are perfectly willing to continue production at full speed when they have in hand or can foresee a demand for their products which will insure a reasonable margin of profit above cost of production. We must inquire also what assistance government can render in fostering the spirit of business enterprise through the formulation of policies in such matters as the settlement of claims growing out of the cancellation of war contracts, loans to foreign governments for the rehabilitation of their industries, the undertaking of public works, and taxation.

The fundamental fact that demand and production are interdependent and that therefore domestic demand is determined primarily by the state of domestic employment is the first great lesson to be grasped. The demand for goods will depend primarily upon the purchasing power of the masses, and the volume of production can be maintained only through the complete employment of labor. This means that the business men as a whole have in their hands the size and scope of the combined demand presented by the markets of the country. From the standpoint of national enterprise the problem is, not so much how to capture the markets that exist at the end of the war, but rather how to keep the various markets co-ordinated in such a manner that the sellers in one group of markets will be steady buyers of the things which other markets offer.

On the statistical side we need an investigation to forecast market demand. In this connection a complete survey should be made

of the extent to which our plants, machinery, and durable consumption goods like clothing, furniture, houses, and automobiles have been depreciated during the war. There is a pretty general impression among business men that the roadway and equipment of our railroads and the plant and equipment of our public utilities have been greatly depreciated, and that the restitution of these industries will constitute a demand for goods now that the war is over. We need to ascertain whether this impression is supported by facts. The investigation should also determine the extent to which our stocks of raw materials and finished goods have been depleted. In this manner we shall arrive at the volume of potential demand which must be satisfied when business prosperity sets in. It is most unfortunate in this connection that the War Industries Board was not retained. This Board had already collected a mass of data concerning production, depletion of stocks of goods, and growth of plant capacity. This, if extended and presented from the point of view of reconstruction, would have been invaluable to the business men of this country in making plans for the redirection of their activities.

Our business men and legislators must be shown that the great mass of demand for American goods must come from American buyers and not from foreign trade. There is much misunderstanding on this point. There seems to be a general impression that with our huge added capacity we should have to add almost all the world's trade to our own for consumption to equal our present capacity. It seems to the American business man that unless we can capture a large part of the world's trade our plants will have to lie idle. Unless his convictions on this point can be changed, the energies and thought that should go to solving the problems of the business cycle will be frittered away upon legislating and advertising campaigns which have for their chief end the corralling of the world's foreign trade. An elucidation of principles and a collection of facts which would succeed in turning the attention of American business men to the development of regulatory machinery for the control of the business cycle rather than the control of imports and exports would be the greatest attainment, industrial and financial, since the days of Alexander Hamilton's establishment of

national credit. Our total exports of merchandise in 1913 were \$2,484,000,000. In 1917 they amounted to \$6,233,000,000. Our national production was \$35,000,000,000 in 1913, \$65,000,000,000 in 1917, and in 1918 it amounted to \$70,000,000,000.

If entrepreneurs are to enter upon an active program of converting plants and producing goods they must have a credit situation which will put them in possession of the necessary funds. Here the government's policy in settling claims arising out of the cancellation of war contracts will play an important part. If these are settled promptly, entrepreneurs will have available bank credit; if not, they will have undertaken claims against the government which will be settled only after years of litigation. The effect of prompt settlement upon the resumption of productive activity should be ascertained with some degree of quantitative definiteness. The government can then determine the results which will flow from a prompt settlement of these claims. A saving of four or five hundred millions of dollars in settling might result in a waste of productive resources of ten times this amount because of idleness. This would be a penny-wise pound-foolish policy.

While the major part of our product must be marketed in this country, a quick and certain demand for our goods abroad would facilitate the readjustment of industry. This can be done only by loaning our customers the money with which these goods are bought, or what comes to the same thing, selling to them on credit. What amount of credit will we be able to furnish to foreign nations after the war? It has been stated with some show of statistical proof that the excess of our production over our consumption has doubled since the outbreak of the European war even when measured in physical terms, and that in money terms it has increased from \$6,500,000,000 to \$20,000,000,000. If this is so, what are the conditions that will maintain such a volume of savings after the war? These matters should be made the subject of thorough investigation.

Our most obvious and immediate foreign market will be for the things needed to rehabilitate France, Belgium, and the Balkans. The demand for these goods can be definitely enough determined in advance to enable our American business men to begin at an

early date to convert their plants to meet this demand. A market for \$3,000,000,000 to \$4,000,000,000 worth of materials and supplies for this purpose would be a valuable aid in producing and maintaining a healthy state of business optimism and employment during the days of industrial reconstruction. When our commissioners sit down at the peace table they should know exactly what this demand will be, and what effect its conservation for the United States will produce upon American business. It may well be that if they are thus informed they will find it desirable to accept long-term bonds, while the United States assumes the immediate burden of furnishing the wealth needed to enable the warring nations to assume quickly and efficiently their natural places in the world's industry. In one sense these loans to Europe during the next few years will be costless, because the resources used in producing the exports to which they give rise will be unemployed and so wasted if the loans are not made.

If the business interests of the country grasp clearly the principles which have been enunciated, and if the government gives proper aid by way of statistical information and the formulation of helpful policies, it will aid materially in maintaining the productive level during the period of transition from war to peace. But the most sanguine of us hardly imagine that it will maintain the flow of products which we witnessed here in the years 1916-18. The best it can do is to prevent a depression which will carry our productive activity below normal. This normal, as we knew it before the war, will still be far below the maximum that we have recently attained. It seems that somewhere in the present industrial process there is a factor of retardation which is only occasionally cast out by such a holocaust as war. What is the secret of its casting out, even for the space of three years? If this secret can be discovered, we may indulge the hope of institutionalizing it and adding permanently ten billion dollars to our annual national output. We could then realize the high standard of living of which reformers have dreamed, and could increase our national wealth at a rate equal to that of half the civilized world outside. The usual view of the matter is that business lags in normal times because of a failure of demand; that during the war there was an

extraordinary demand, at first from the European governments and then from our own in addition. It was this additional demand that moved entrepreneurs to produce to full capacity. Now that the war demand has fallen off, it seems to most people obvious that production cannot go on at its former pace. "If it did, where would we find our market?" they ask. The fundamental fallacy lurking in this analysis has been commented upon in an earlier part of this paper. Production creates demand in ordinary times. It is an old maxim of political economy that wants are insatiable. This is still true, even in a country where the average of productive output is as high as in our own. Not more than 10 per cent of the families of the United States have incomes of \$3,000 or more. With such a situation there is still an immense amount of unsatisfied demand which depends for its appearance in the actual market upon nothing more than the opportunity to work and produce. To say that production lags because demand is not forthcoming starts with the assumption that production has already lagged and so has reduced demand. The secret of the thing must be sought elsewhere.

A more fundamental explanation is that low profits, or even ordinary profits, are not sufficient to tempt business men to high productive activity. Modern business is carried on for profit. When large profits are in prospect, therefore, production goes on at a feverish rate. It is doubtful whether this explanation of the matter is quite adequate. Most business men are perfectly willing to produce for low profits, especially when no opportunity presents itself to make high ones. The fundamental reason why production is retarded when only low profits are in sight is that a situation which yields small profits is one in which the prices of products and the prices of cost goods are close together. The risk that a fall in the former or a rise in the latter shall completely absorb the margin of profit is increased as these two sets of prices approach each other and is lessened as the margin between them widens. If the prices of the labor and material come to exceed the price of the product, the entrepreneur faces loss and ruin. During the last three years prices for products have risen at an enormous rate, and while it was certain that the price of cost goods would rise also, the

margin between the two which the entrepreneur foresaw was so great as to minimize his risk. In this situation he was willing to produce to the full capacity of his plant.

The factor that prevents a full realization of our productive capacities is this risk of loss. If it could be minimized or eliminated the nation could have a high level of productive output even with normal profits. It is pertinent, therefore, to inquire into the possibility of decreasing industrial risk through formal organization. Thus far the most successful institution which has been developed for the elimination of individual risk is the institution of insurance. In essence this is a pooling of the particular risk involved. Houses burn; the building of houses would, in the absence of insurance, be a venture fraught with risk, and the supply of houses would therefore be restricted and of poorer quality. But by pooling the risk through fire insurance, one can be relieved of the risk of loss by fire for a small payment. One can then proceed to make his plans for building as though no risk of such loss existed. Cannot a similar principle be applied to the risk of industrial loss with beneficial results? If it were possible to guarantee every entrepreneur at least his operating expenses, including depreciation, the risk of loss could be minimized. This would unquestionably stimulate production.

Such guaranty could be made only by the government, for it only can exercise the taxing power necessary to take from the more fortunate industries those fortuitous profits which are the obverse of the losses incident to the modern industrial process. It would not do away with the right of private property or with individual initiative, nor would it in any wise lessen the incentive to prudence and efficiency. Neither would it induce anyone to put his capital into an unwise venture. There would still be the same incentive to exercise care in the direction of production, and to attain proficiency in its prosecution, for without these no adequate rate of profit could be realized.

This would not be socialism, because the entire industrial equipment of the country would still remain private property, and the profits of industry would belong to the owner. They would, of course, be subject to taxation, and the tax system would have to

be adjusted in such a manner as to take from certain enterprises the amount needed to cover the insured losses arising from the risks of modern business. Production would continue to be directed by individuals who would decide what should be made and would choose the methods of production. The right of private property in the means of production would probably have imposed upon it a new function. If the government assumed part of the risk of industrial loss it would no longer allow an owner to keep plants standing idle when such idleness caused unemployment. Any scheme of this sort would involve an examination and approval of the costs of labor and material before insuring them, otherwise the process might easily be open to fraud. But after our experiences of the last eighteen months this task certainly is not an impossible one.

The plan here set forth for maintaining the level of productive activity is not presented as a panacea, nor in the spirit of the propagandist. This nation has discovered a most important fact concerning its capacity for production. We are confronted by a serious crisis, economic and political. Fertile suggestions are therefore in order, and this proposal is presented as such. It may be that upon closer examination of the details involved in administering any such plan it will prove to be impracticable and unworkable; but if successful its possibilities are so epoch-making that it deserves thoroughgoing and unprejudiced consideration. It is presented here in the hope of stimulating frank discussion. Nor need this discussion be limited to the economists and business men. Our publicists are hard put to it these days for relevant issues that shall fire our political imagination. Our statesmen are making much ado over such matters as the public ownership and control of telegraphs, telephones, and railroads. The revenue collected from the people by these industries amounts to \$5,000,000,000 per annum. Surely some statesman ought to be willing to champion a cause which promises to add \$10,000,000,000 to our annual national output.

DAVID FRIDAY

WASHINGTON, D.C.